

Deleum (DLUM MK)

1Q26: In Line, OIS Momentum Balance Slower Valves Sales

Highlights

- **1Q26 profit in line, despite accounting for 11% of our/consensus forecasts.** P&M, the core recurring business for the group, recorded sales that was similar yoy, but margins shrank materially given the higher mix of the turbines. The offsetting factor was better-than-expected OIS activity. We had earlier expected OIS to reach profit breakeven in 2H26, after being guided that 1Q26 may see several startup costs (which were not revealed as of now).
- **Defensive business amid market uncertainties.** DLUM has about 20% revenue exposure to downstream customers, in which the turnaround activities may face deferrals. Aside from this, we see sustained momentum for DLUM's other businesses moving forward, highlighting upgraded turbines outlook from Caterpillar, and OIS' role as a historical precedence of boosting domestic production during past energy crises. Armed with an attractive yield of 8%, we retain BUY and target price of RM1.75.

1Q26 Group Results

Year to 31 Dec	1Q26 (RMm)	qoq % chg	yoy % chg	Comments
Revenue	184.9	(38.9)	3.1	Historically, 4Q is a strong quarter
- Power & Machinery (P&M)	136.6	(45.7)	2.9	Turbine business stronger yoy
- Oilfield Integrated Services (OIS) *	48.1	(5.4)	3.3	
EBIT	19.4	(34.8)	(36.3)	Lower P&M margins due to product mix
- Power & Machinery (P&M)	14.8	(60.0)	(48.0)	Valves business weaker yoy
- Oilfield Integrated Services (OIS)	4.5	(161.0)	137.7	Earnings higher yoy despite startup costs
Operating Margin	9.5%	(3.1)	0.0	
Impairment Loss	0.0	Na	na	
Net finance Cost	(0.4)	(0.1)	(0.2)	
Associates	0.9	(5.4)	(29.1)	
PBT	17.8	(45.2)	(37.0)	
Tax	(4.7)	0.7	(39.4)	Exceptional items (EI): Net forex gain RM0.2m
Net Profit	9.0	(47.3)	(27.8)	RM2.4m debt recovered/writebacks, RM1m fair value loss, RM0.7m liquidated damage
Core Profit	8.8	(54.9)	(34.3)	

Source: Deleum (DLUM), Bloomberg, UOB Kay Hian

Analysis

- **1Q26 core profit deemed in line, despite accounting for 11% of our/consensus forecasts.** On a yoy basis, Deleum (DLUM) weaker profit was mainly due to lower power & machinery (P&M) margins as sales volume were similar, primarily due to lower share of the higher-margin P&M products, namely control and safety valves/ flow regulator. While the lacklustre sales of the higher-margin P&M products may be a risk to our forecasts, OIS performed better than expected, as we were guided that 1Q26 had several startup costs (amount was undisclosed).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	907	997	1,024	1,085	1,147
EBITDA	160	163	192	212	227
Operating profit	130	130	151	161	170
Net profit (rep./act.)	74	71	82	86	91
Net profit (adj.)	80	73	82	86	91
EPS	20.0	18.3	20.4	21.5	22.7
PE	6.2	6.8	6.1	5.8	5.5
P/B	1.1	1.0	0.9	0.9	0.8
EV/EBITDA	2.2	2.2	2.2	1.8	1.5
Dividend yield	7.4	7.3	8.2	8.6	9.1
Net margin	3.3	7.7	10.7	9.9	9.2
Net debt/(cash) to equity	1.0	(4.6)	(33.4)	(42.4)	(50.1)
Interest cover	328.7	123.3	70.0	62.8	66.3
ROE	19.4	17.8	19.5	19.5	19.6
Consensus net profit	-	-	74	88	93
UOBKH/Consensus (x)	-	-	1.09	0.99	0.99

Source: Deleum, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM1.25
Target Price	RM1.75
Upside	+40.0%

Analyst(s)

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Stock Data

GICS Sector	Energy
Bloomberg ticker	DLUM MK
Shares issued (m)	401.6
Market cap (RMm)	490.0
Market cap (US\$m)	120.0
3-mth avg daily t'over (US\$m)	3-

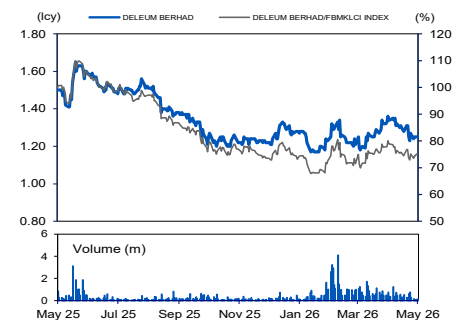
Price Performance (%)

52-week high/low			RM1.69/RM1.20	
1mth	3mth	6mth	1yr	YTD
0.0	0.0	(17.0)	(12.8)	(12.2)

Major Shareholders

	%
Lantas Mutiara	20.4
Hartapac	12.0

Price Chart



Source: Bloomberg

Company Description

Deleum provides a diverse range of specialised supporting products and services to O&G industry. It operates two main business segments, i.e. Power & Machinery (P&M), and Oilfield Integrated Services (OIS). OIS combines the Oilfield Service (OS) and Integrated Corrosion Solution (ICS) divisions

- 1Q26 review by segment.** For P&M, the sale of gas turbines and related aftermarket support services saw higher revenues of RM99m (4Q25: RM181m; 1Q25: RM73m), but sale of valves and flow regulators recorded a lower revenue of RM37m (4Q25: RM62m; 1Q25: RM55m). The revenue contribution from OSA Industries Indonesia (OSAI) was RM3.9m (4Q25: RM19m). Despite higher revenues, the cost base also increased following the inclusion of OSAI's opex; hence, operating margins slightly compressed. For oilfield integrated services (OIS), slickline activities were weaker qoq and yoy with RM28m revenue (4Q25: RM28m; 1Q25: RM30m), mainly from East Malaysia. We understand that OIS activities including slickline for West Malaysia actually increased qoq. Another major OIS service - maintenance, construction and modification - also recorded weaker revenue of RM9m (4Q25: RM13m; 1Q25: RM11 m).
- Solar turbines outlook remains strong according to Caterpillar's latest guidance.** As shown on the RHS table, Caterpillar (CAT US, NR) which is the owner of Solar Turbines and long-time partner with DLUM, reported strong 1Q26 earnings performance even from turbine sales to its customers in the Power & Energy (P&E) segment. Interestingly, Caterpillar upgraded its growth outlook despite factoring in uncertainties from the US-Iran war, suggesting high confidence to sustain Solar Turbines' global sales momentum.
- Outlook for a positive OIS momentum remains.** In line with our earlier update, the current environment of high oil prices and heightened energy security demand, both of which may persist post US-Iran war, may be a material catalyst for the well intervention market. Within the value chain, well intervention services represent a low-hanging opportunity that oil majors can easily tap into to boost domestic volume production. This suggest possible scenarios for DLUM to undertake more slicklines than planned, given the scarcity of reliable local slickline operators. Note that DLUM can always boost its fleet via the employment of third-party units. We now expect the positive earnings surprise seen in 1Q26 (partly due to cost control) may resume its momentum for at least a few quarters ahead.
- Penaga Dresser may face deferrals in sales due to geopolitical events.** While we do not foresee a material slowdown in the upstream/maintenance sectors as a result of the war, DLUM's results commentary hinted at potential deferrals of several downstream turnaround activities, which may cause some of its revenue to also face deferrals. To recap, about 20% of DLUM's exposure is to downstream plants and customers. One of the anticipated turnarounds that should benefit DLUM is PRefChem.
- The recent news of Saudi Aramco fully divesting away its stake in PRefChem to Petronas may be seen by some quarters as "Aramco refocusing on its portfolio and cutting away overseas investments that are operationally disadvantaged".** Regardless, a change in management ie Petronas gaining full management control, could involve follow-up changes in the integrated complex's turnaround schedule, in our view.

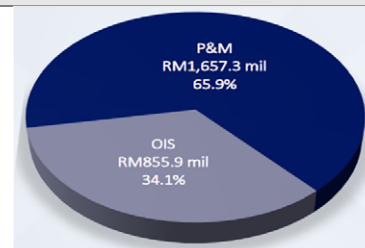
Valuation/Recommendation

- Retain BUY, target price of RM1.75** pegged to an unchanged 8x 2026F PE. We see DLUM as the key beneficiary of maintenance, and a premium stock amongst O&G small cap due to the structural themes above. DLUM's dividend-paying ability (50% payout) will not be constrained by higher capex appetite (forecast RM60m-70m p.a.), given its lean balance sheet and stable cash flow generation. Its current price offers an 8% dividend yield.

Earnings Revision/Risk

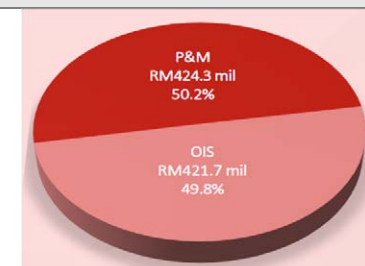
- No change to forecasts.** We may update forecasts once the startup costs in 1Q26 are revealed.

Orderbook of RM2.5b as at Dec 25



Source: Deleum

Tenderbook of RM846m as at Dec 25



Source: Deleum

Caterpillar 1Q26 Review And 2Q26 Outlook

1Q26 Review

- Caterpillar achieved record total sales and EPS growth of 30% yoy
- For its Power and Energy (P&E) segment, which combines customers from O&G and Power sectors, sales increased by 22%, followed by profits which increased by 13%
- The favourable sales volume growth drove better price realisation, which more than offset unfavourable manufacturing costs due to tariff
- Solar Turbine's O&G backlog remains healthy, with continued solid order and inquiry activity. Hence, Caterpillar expect 2026 to be another strong year for turbine sales alongside service revenue
- Caterpillar sees long-term secular demand for its large reciprocating engine capacity, which also serves O&G segment. Plans to boost the large reciprocating engine capacity from 2x to 3x 2024 levels.

2Q26 Outlook

- Although they remain watchful over developments on geopolitical events, they upgraded their sales growth target for remainder of 2026
- Also, this upgrade comes from their review that the P&E segment is tracking ahead of their 2026 capacity growth plans
- Overall, growth remains strong in Caterpillar's key segments, though it appears that there is increasing focus on channelling capacity for large reciprocating engines vs gas turbines

Source: Caterpillar (CAT US, NR) 1Q26 Transcript

Environmental, Social, Governance (ESG) Updates

Environmental

- Voluntary greenhouse gas (GHG) emission compliance. Deleum has mid-term and long-term targets on GHG emissions reductions to be aligned to world-standard goals. Deleum reduced GHG emissions by 26%/ 30% in 2022/ 2021
- Safety. Loss time injury frequency (LTIF) was 0 in 2023 (2022: 0.076).

Social

- Zero reported incidents/ infringements of human rights, nor forced labour.

Governance

- 4 out of 7 board members are independent.
- Zero-corruption. Performed all and beyond what was expected as whistleblower to a lucrative maintenance contract, and enhancing internal contracts

Source: UOB Kay Hian Estimates

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	997	1,024	1,085	1,147
EBITDA	163	192	212	227
Deprec. & amort.	33	41	51	57
EBIT	(133)	(139)	(147)	(156)
Total other non-operating income	5	5	5	5
Associate contributions	5	5	5	5
Net interest income/(expense)	(1)	(3)	(3)	(3)
Pre-tax profit	134	153	162	171
Tax	(33)	(38)	(40)	(42)
Minorities	(30)	(34)	(36)	(38)
Net profit	71	82	86	91
Net profit (adj.)	73	82	86	91

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	106	149	168	181
Other LT assets	119	108	109	111
Cash/ST investment	242	218	265	313
Other current assets	358	366	386	405
Total assets	825	841	928	1,010
ST debt	28	28	28	28
Other current liabilities	14	14	14	14
LT debt	134	134	142	150
Other LT liabilities	84	52	80	102
Shareholders' equity	496	538	581	626
Minority interest	566	614	664	717
Total liabilities & equity	825	841	928	1,010

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	134	153	162	171
Pre-tax profit	134	153	162	171
Tax	33	38	40	42
Deprec. & amort.	33	41	51	57
Working capital changes	(34)	(105)	(41)	(45)
Other operating cashflows	-	-	-	-
Investing	(50)	(62)	(62)	(62)
Capex (growth)	(56)	(70)	(70)	(70)
Capex (maintenance)	-	-	-	-
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	6	8	8	8
Financing	(45)	(48)	(52)	(57)
Dividend payments	(37)	(41)	(43)	(45)
Issue of shares	-	-	-	-
Proceeds from borrowings	(30)	(30)	(30)	(30)
Others/interest paid	(34)	(47)	(49)	(51)
Net cash inflow (outflow)	38	(24)	47	49
Beginning cash & cash equivalent	199	242	218	264
Changes due to forex impact	5	0	0	0

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.4	18.8	19.5	19.8
Pre-tax margin	13.4	15.0	14.9	14.9
Net margin	7.1	8.0	7.9	7.9
ROA	9.5	10.8	10.8	10.9
ROE	18.4	19.5	19.5	19.6
Growth				
Turnover	63.8	68.3	78.3	88.5
EBITDA	87.8	121.3	143.4	161.3
Pre-tax profit	168.7	208.3	225.6	243.7
Net profit	168.1	207.6	224.9	243.0
Net profit (adj.)	163.1	193.2	209.7	226.9
EPS	163.1	193.2	209.7	226.9
Leverage				
Debt to total capital	6.7	9.4	8.7	8.0
Debt to equity	7.7	10.7	9.9	9.2
Net debt/(cash) to equity	(4.6)	(33.4)	(42.4)	(50.1)
Interest cover (x)	123.3	70.0	62.8	66.3

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